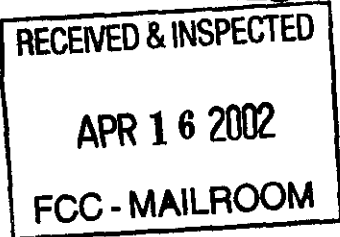


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STATE OF MARYLAND EX PARTE OR LATE FILED



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April 11, 2002

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W., The Portals
Washington, D.C. 20554

**Re: Ex parte Presentation to FCC Staff – Regarding the
SLC Costs Study Review, CC Dockets Nos. 96-262 and 94-1.**

Dear Ms. Salas:

On April 3, 2002, as required by Section 1.1206(b) of the Commission's rules, the National Association of State Utility Consumer Advocates (NASUCA), filed a Notice of an *ex parte* meeting with the FCC regarding the above-referenced proceeding. Unfortunately, we forgot to attach the Cost Study Review that was prepared by Dr. David Gabel supporting the presentation.

I am attaching an original and two copies of the Cost Study Review and ask that you attach it with the Notice of *ex parte* meeting that was filed on April 3, 2002. As with the Notice, please place this notification in the record of the proceedings identified above.

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

Michael J. Travieso
People's Counsel

MJT:sd
Attachments

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List ABCDE

Cost Study Review

Ex Parte Presentation

NASUCA

March 25, 2002

CC Dockets 96-262, 94-1

Policy Reasons for CALLS

- Economic Efficiency
- Reduce Implicit Subsidies
- Benefit consumers.
- Does the proposed increase in the SLC comport with these objectives?

FCC Wisely Puts in Place a Check

- CALLS involved an agreement between IXC's and CLECs.
- Consumer interest is not necessarily in line with the interest of IXC's and CLECs.
 - Adam Smith
 - Anti-trust and regulatory law
- FCC recognized the need to evaluate the reasonableness of the proposed SLC increases.
- FCC established a process which required the review of economic cost data.

Why Economic Costs?

- Any discussion of implicit subsidies and efficiency must be based on a consideration of economic costs. Embedded costs, such as the CMT, tells us nothing about implicit subsidies and economic efficiency.
- No party in this proceeding has claimed that the CMT or embedded costs are relevant for evaluating the existence of implicit subsidies or economic efficiency. Any such claims by the IXC's or ILEC's would be a 180 degree reversal of their prior positions.

Economic Cost Studies Filed by ILECs

- Studies filed by ILECs were inadequate for a number of reasons recognized by Ad Hoc, Florida, California and NASUCA
- Acceptance of ILECs filings would be a reversal of Commission's past policy and would make a mockery of this proceeding. The studies haven't been reviewed by any party. They are not part of the record.
- The models and inputs have consistently been modified by State PUCs. The State PUCs have concluded that the ILEC studies overstate the economic cost of service.

Alternative Course—Option I

- Abandon consideration of economic cost data.
- Base SLC on CMT.
- Ad hoc. NJ economic cost is \$3.49. CMT is \$6.21.
- No claim can be made that the resulting prices reduce implicit subsidies or improve economic efficiency.
- Resulting prices are not just and reasonable.
- What was the purpose of this proceeding if the reasonableness of the SLC isn't judged relative to economic costs?
- The FCC said SLC could go down based on its review of economic cost data.
- Prices can't decrease if ignore economic cost data.

Option 2

- Estimate economic cost using the Synthesis Model (SM), UNEs, or a combination thereof.

SM

- Advantages
 - Public Domain
 - Inputs have been established by the FCC
 - Commission and parties are familiar with its operations
- Disadvantage
 - Commission stated that the model may not be appropriate for other purposes such as UNEs (96-45, 9th report, par. 14)
 - The FCC has recognized that the cost of providing UNEs is greater than the cost of providing voice service. But in this proceeding the goal is to establish the economic cost of voice services.
 - Inputs not State specific. Remedy.

SM Discussion Continued

- Model is “hypothetical”
 - Forward-looking models, by definition are hypothetical. Are its abstractions absurd relative to the models submitted by the ILECs?
 - Inputs based on cost data of ILECs (rural and non-rural).
 - Switching. ILECs accounting records and contracts. SCIS.
 - Outside plant. Contracts of rural telephone companies and State proceedings.
 - Expenses. ARMIS data.
 - Marketing. CALLS rate making v. cost-of-service.
 - Customer location.
 - Digital Line carrier. ILEC data.
 - ILEC alternative. In this proceeding the FCC should adopt values that it has rejected in 271 proceedings.

SM Options Submitted by NASUCA

- Default
 - Common Costs
- Feeder/Distribution Sharing
- Fiber feeder—GR-303

UNE Cost estimates

- Advantages
 - Company specific input values.
 - Consistency between UNE, SLC, and CALLS USF.
 - Thorough review of cost models.
- Disadvantage
 - FCC hasn't reviewed the models.
 - Need to adjust expenses. But remedy is ARMIS data incorporated into SM.
 - FCC is on record that the cost of a UNE exceeds the cost of providing voice service.

Ad Hoc estimates

- State count versus line count
- Zone roll-up
- Port. 25% v. interstate DEM.
- Common expenses. No allocation to usage, signaling.
- No recognition of USF

Criticism of UNEs and SM

- Represents average cost rather than the cost of residential and single business lines
- Inconsistent approach.
- How do you measure the cost of serving residential customers?
 - Trenching, poles, structure, getting started cost of switch, maintenance, etc. Business line in residential community.
 - “the amount of joint and common costs that must be allocated among separate offerings is likely to be much smaller using a TELRIC methodology rather than a TSLRIC approach that measures the costs of conventional services.” Par. 678, First Report and Order.

Fiber Feeder and Digital Line Carrier Equipment

- No one disagrees that equipment is engineered to satisfy peak-usage requirements.
- FCC's long-standing commitment to recover traffic-sensitive costs through usage rates.
- ILECs argue that this issue shouldn't be considered. Fail to address how their proposal comports with the objectives of reducing implicit subsidies, improving economic efficiency, increasing customer benefits, or consistency with prior Commission policies.

High Frequency Portion of Loop

- ILECs claim the issue is not relevant or settled.
- Not settled.
- Stability in rates.
- BellSouth
 - Zero sum game. Dynamic Competitive implications.
 - Upgrades for advanced telecommunications services.
 - “Economic expert”
- Fifth Circuit. Cost allocations versus recovery.
- QWEST and SBC.

Conclusion

- Economic efficiency and any discussion of implicit subsidies requires consideration of economic data.
- ILECs don't claim that their submissions are consistent with findings of State Commissions.
- Process: Cincinnati Bell: "Each of the carriers has provided information about their particular methodology to allow the Commission to assess the reasonableness of the results. Whether NASUCA, using different models and different inputs can reach a different result is not relevant."